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STATE FOR PM, NEA, NEA/ARP, NEA/NGA

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TAGS: EAID PREL MARR MOPS KU I2

SUBJECT: BLOOMFIELD DELEGATION MEETS INTER-MINISTERIAL COMMITTEE

REF: 00243

Classified By: CDA FRANK URBANCIC; REASON 1.4 (A,B,D)

¶11. (C) Summary. A senior U.S. delegation led by PM A/S Lincoln Bloomfield Jr. with PDASD/ISA Peter Flory, met on January 27 with representatives of the Kuwait Ministries of Foreign Affairs, Finance, Defense and Energy as well as the Kuwait Petroleum Corporation at the Kuwait Ministry of Finance (other meetings Septel). The GOK had convened the meeting to address outstanding assistance-in-kind (AIK) fuel issues unresolved since May 2003. The Kuwait side had requested payment of \$82 million for fuel supplied during the period of May 1 through December 1, 2003, and a contract with a USG entity to cover on-going fuel support for Coalition forces. They explained that without a contract as the legal basis for provision of fuel, it would be "very difficult" to continue the program. The U.S. side secured the GOK team's agreement to refer USG consumption data and request for a continuation of AIK, i.e., cost-free fuel support, to their Ministries, leadership for further consideration. The Kuwaiti request for a contract remains open. End Summary.

Grateful for Contributions Made Thus Far

¶12. (C) A U.S. delegation led by PM A/S Lincoln Bloomfield Jr., with PDASD/ISA Peter Flory, BG Trautman of CENTCOM and MG Taguba of CFLCC, met with Kuwaiti officials (delegation lists at para 19) at the Ministry of Finance on January 27 to discuss Kuwait's continued assistance-in-kind (AIK) fuels subsidy to Coalition forces engaged in Operation Iraqi Freedom (OIF). In early December, the Ministry of Finance had presented Embassy a bill in excess of \$82 million for fuel supplied during the period of May 1 through December 1, 2003 and had asked for a contractual arrangement with the Kuwait Petroleum Corporation (KPC) and a USG entity to cover all future fuels supplied to Coalition forces (Reftel). The Bloomfield delegation was charged with ensuring the fuel supply was not interrupted and that Kuwait understands USG's expectation that the AIK fuels would continue at the GOK's expense.

¶13. (C) A/S Bloomfield opened the meeting by observing the significant role that Kuwait has played both in securing the defeat of the Saddam Hussein regime and in the on-going Coalition military stabilization campaign and humanitarian as well as reconstruction programs for Iraq. He cited the food, electricity, medical support, telecommunications, use of bases, ports and airfields, and especially provision of fuel as critical to our efforts. He noted that in partial recognition of those efforts, Kuwait would be honored as a Major Non-NATO Ally (MNNA) at a March ceremony in Washington. He reported that in meetings earlier that day with the Prime Minister and Foreign Minister, he had delivered a letter from the Secretary of State regarding the ceremony and that Mr. Flory would do the same later with a letter from Secretary Rumsfeld to the Minister of Defense. He said that his trip to Kuwait seeking agreement on the continuation of AIK fuels indicated the critical importance that Washington attaches to our bilateral relationship and to the Iraq operations it is supporting.

¶14. (U) Bloomfield observed that in the coming months, the largest troop rotation since World War II would see more than 200,000 U.S. military personnel rotating out of and into Iraq. Those forces, with the support of 34 other nations, were needed to stabilize Iraq. The 26 million people of Iraq would not, he said, soon forget the outstanding contributions of Kuwait.

¶15. (U) The costs, Bloomfield remarked, indeed are very large for Kuwait, as they are for the U.S. The United States, he said, is spending approximately \$4 billion a month for military operations alone in Iraq. Even with a budget deficit, the Administration had gone back to Congress for supplemental budget requests the past two years. The latest supplemental was for \$87 billion, with \$19 billion of that earmarked for Iraq's reconstruction. This is an enormous assistance program that, for example, dwarfs the Camp David

financial commitments. The costs are not only financial. More than 500 American soldiers have lost their lives in Iraq. However, and as a result of the Coalition's success in Iraq and in the earlier liberation of Afghanistan, over 50 million people now are free and at peace with their neighbors.

¶6. (U) Bloomfield further acknowledged Kuwait's considerable contribution to regional stability, citing the generous pledge taken at the Madrid Donors' Conference, and the recent agreement to consider a substantial reduction in Iraq's debt to Kuwait. These were big and difficult decisions to take, he said, but clearly were the right actions to ensure long-run prosperity and stability.

Declining Usage Rate

¶7. (C) Following these remarks, CENTCOM personnel provided a comprehensive update on OIF. They described the nature of the remaining threat in Iraq, and briefed on operations undertaken by elements of the 101st Airborne, 82d Airborne and 4th Infantry divisions. To provide the GOK team a better understanding of the Coalition's military activities in Iraq, CENTCOM described four on-going offensive operations as well as three upcoming operations.

¶8. (C) Bloomfield said that we anticipate the U.S. military forces rotating into Iraq will be a lighter force than the units they replace, and hopefully their tempo of operations would be allowed to decline over the coming months as essential services such as the refineries, power generation, roads, education, healthcare and agriculture are more fully restored. He noted that the Coalition is training over 200,000 Iraqis now on the payroll as police, border patrol, facilities protection services and the new Iraqi army. He said our objective is to empower Iraqi security forces to be stable, professional and proud to serve but not threatening to their neighbors. This program, with time, could be expected to reduce the need for Kuwait AIK fuels; but for now the Coalition's job is not finished.

¶9. (C) Bloomfield acknowledged that in 2003 Kuwait had donated approximately 482 million gallons of fuel, mostly jet fuel. (Note: That donation accounted for approximately 22 percent of Kuwait's aviation fuel production, 4.5 percent of GOK revenue from fuel sales overall and 1.2 percent of Kuwait's GDP.) He provided the GOK team with a CENTCOM-produced projection of fuel needs for 2004, totaling 458 million gallons, noting that in both years, the fuel needs spiked in March and April -- in 2003, due to the war; in 2004, due to the troop rotations.

¶10. (C) Bloomfield said that the charts and CENTCOM briefing on force structure and deployments illustrated two points of importance:

- a) there remains a significant need for continued military stabilization operations in Iraq; but
- b) with the changes in force structure from relatively heavy combat units to lighter infantry forces, fuel needs will trend downward, over time if not immediately.

Bloomfield asked the GOK team to work with USG to try to overcome the domestic political challenges in obtaining solid support in the Kuwait Parliament for the continued uninterrupted supply of fuel as a contribution to the military operation in Iraq. Noting that the trend line for fuel use was headed downward even by the conservative CENTCOM 12-month projection, he pledged USG would provide periodic updates on usage rates so Kuwait might better anticipate the monthly requirement of U.S. forces and thereby regularize its production, avoiding present logistical complications in providing the fuel.

¶11. (C) Bloomfield concluded by saying that Kuwait was absolutely entitled to the most accurate accounting of our fuel utilization requirements, noting that Embassy, Pentagon and CENTCOM stood ready at any time to explain the basis of our projected fuel needs. He added that he had volunteered his own availability to the Prime Minister to re-engage at a later date should it be necessary to ensure that we remain good and complementary allies in bringing OIF to its eventual and successful conclusion. He concluded that continued GOK support through AIK was "absolutely critical to stabilizing Iraq."

Kuwait's Bind: We Need a Contract

¶12. (C) Chief of the Kuwaiti delegation Acting Ministry of Finance U/S Abdullah Al-Mansour came directly to the point. He said that Kuwait indeed had made a sizable contribution through AIK fuel and other programs in support of OIF. However, the size of the contribution was of less importance

than the need for a legal basis for the assistance program. He noted that it was "very difficult" to continue AIK fuels without a legal contract with an identified American entity responsible for accounting for past usage as well as future usage. He said that representatives of the Ministries of Foreign Affairs and Defense were present in the room and prepared to sign a fuels agreement.

¶13. (C) Al-Mansour explained that the agreement the Ministry of Finance had arranged between KPC and the Ministry of Defense (MOD) had expired on January 1, 2004. That earlier understanding had it that MOD would pick up the tab for the AIK fuels program until the end of hostilities. The Cabinet now had defined that date as May 1, 2003. KPC had a legal requirement to have its delivery of fuels covered by contract. Al-Mansour said that the issue had been discussed in the Council of Ministers and the decision taken to regularize the fuels program.

¶14. (C) This then was a two-part exercise. First, an American entity would be named to step into the contractual position MOD had had with KPC until the turn of the year. Second, payment would be required for fuel provided since May of last year and terms arranged for payment for fuel in the future. Al-Mansour emphasized that the price for the fuel was negotiable and of lesser importance. The problem KPC and Ministry of Finance shared was in not having a legal basis for continued provision of fuel and in accounting for past supplies. He said that the Parliament and Audit Bureau were in the process of examining the Ministries, and KPC's books on the fuel deliveries.

More and Better Data Offered

¶15. (C) A/S Bloomfield reiterated the importance that USG attaches to our continued reliance on AIK fuels. He reassured the Kuwaiti side that although we could not answer all the GOK's questions on usage rates we certainly could and would do better than we had in the past. He expressed full understanding for the internal Kuwaiti requirements for accountability and legal arrangements with KPC, and asked that the GOK revisit the issue at upcoming Council of Ministers, meetings in recognition that all the Coalition partners were making considerable sacrifices for regional stability, especially the United States and Kuwait. He asked whether it would be "bureaucratically possible" to use the 2004 monthly projected usage rates as a vehicle for the government to contract with KPC so as to continue the supply of fuel. Usage rates were projected to drop over time, and he expressed the hope that the Council of Ministers might consider continuing this vital support. Bloomfield explained that our information was spotty before but that we now had a track record, could make better projections, and can point to factors that will eventually bring down the requirement for AIK fuels. He emphasized that we are in the middle of a critical and very serious operation in Iraq; repeated that the USG's own "burn rate" for military operations is about \$4 billion a month, not counting reconstruction assistance or other costs. Just as Kuwait seeks relief from its contribution, we want to bring our soldiers home as soon as possible once regional stability is assured and democracy launched in Iraq. But we are not there yet.

¶16. (C) PDASD Flory seconded Bloomfield's thanks for Kuwait's considerable efforts to date. He said that the Defense Department and Secretary Rumsfeld personally "appreciate everything that Kuwait has done and continues to do" in support of OIF. Without Kuwait's support in fuels, bases and the disruption in the lives of its citizens, the success in Iraq would not be possible, he said. He continued that he had visited Kuwait since 1999 and called the GOK/USG partnership the key to regional stability. That "shared effort," he said, was critical for success on the long road ahead. He reiterated the importance we attach to the MNNA status Kuwait has earned and pledged greater predictability on future fuel usage rates.

Kuwait Kicks the Can Down the Road

¶17. (C) Al-Mansour thanked the US delegation for understanding the "predicament" KPC, the Ministry of Defense and Ministry of Finance faced in continuing the supply of AIK fuels without an agreement. He said, "There is no problem to reduce the price; but we need a legal contract." He said he appreciated the US side's acknowledgement that Kuwait's budget process and contracting regulations are similar to those of the United States and agreed that continued mutual cooperation and respect were vital to success in Iraq over the coming months especially.

¶18. (C) Al-Mansour concluded by agreeing to raise the fuels projection information with the leadership of the Ministries represented at the meeting. He said he would work toward

using that data as the basis for a formal agreement. He repeated that KPC and the Ministries "must cover ourselves with a contract with someone" to legally provide AIK fuels in accordance with Kuwait's government procurement regulations.

¶19. (U) Delegations:

U.S. DELEGATION

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Lincoln P. Bloomfield, Jr.
Asst. Secretary for Political-Military Affairs
Frank C. Urbancic
Charge d'Affairs; Embassy Kuwait
Thomas Williams
Deputy Director NEA/ARP
Stephen Carrig (note taker)
Economic Counselor; Embassy Kuwait

U.S. Department of Defense
Peter C.W. Flory
Principal Deputy Asst. Secretary for Intrnl Security
Affairs
MG Antonio Taguba, USA
Deputy CFLCC
BG George Trautman, USMC
Deputy J-5, USCENTCOM
COL (P) John Mulholland, USA
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Commander Peter McVety, USN
OSD Country Director, Gulf

KUWAIT DELEGATION

Kuwait Ministry of Finance
Abdullah al-Mansour
Acting Under Secretary
Maha al-Rsheid
Controller, General Accounts
Tahani al-Mazan
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BG Abdul Rahman al-Othman
Director, Military Operations
Colonel Kamel Abul al-Awadi
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Kuwait Ministry of Energy
Ahmad al-Sirafi
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Mohammed al-Qassem
Exec. Asst to MD for Sales

Kuwait Ministry of Foreign Affairs
Ayham al-Omar
Counselor) America,s Department
Ghanim al-Sager
First Secretary) Legal Department

¶20. (U) Assistant Secretary Bloomfield has cleared this message.

¶21. (U) Baghdad minimize considered.
URBANCIC